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BC's Pre and Post-  
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# CURRENTS Western Canada's Monthly Economic Bulletin

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## Monthly Economic Highlights

**N**ational employment was up by 31,000 in September, driven by full-time job creation. The August and September gains were the first back-to-back monthly advances since October 2008. BC led national job growth, up 14,000

(+0.6%). Saskatchewan (+0.4%) and Alberta (+0.2%) also posted positive results, while employment declined in Manitoba (-0.4%), mainly due to part-time job losses.

All western provinces saw their unemployment rates decline in Sep-

tember, in line with the Canada-wide rate. At 4.6%, Saskatchewan's unemployment rate remains the lowest in the country, followed by Manitoba (5.3%).

In August, the inflation rate remained negative at -0.8%, up slightly

from -0.9% in July. BC (-1.6%) and Alberta (-1.5%) posted the largest consumer price decrease in the country, mainly the result of lower energy costs. Saskatchewan (+0.9%) was one of the two provinces across the country with price increases.

In July, wholesale trade declined for the sixth month in a row in Saskatchewan (-4.6%). Saskatchewan retail sales were down as well (-1.9%, the steepest decline among the provinces). Manufacturing sales dropped in Manitoba (-4.7%), with lower transportation equipment sales (-13.1%) contributing to the decline. Manufacturing was also down in Alberta (-4.0%), largely as a result of a 10.7% drop in food sales.

Monthly Economic Statistics	BC	AB	SK	MB	Canada	Reference Month
<b>Labour Markets</b>						
Employment (000s)	2,270	1,982	519	609	16,838	September
% change	0.6	0.2	0.4	-0.4	0.2	
Unemployment rate (%)	7.4	7.1	4.6	5.3	8.4	September
change in percentage points	-0.4	-0.3	-0.4	-0.4	-0.3	
Participation rate (%)	65.9	74.0	69.6	69.5	67.1	September
Average weekly earnings (\$)	799.36	942.62	803.90	780.26	824.00	July
% change	0.6	-1.3	0.3	1.6	0.5	
<b>Inflation</b>						
Consumer Price Index (% change)*	1.1	-1.7	0.8	-0.4	-0.3	August
<b>Economic Activity</b>						
Housing starts (000s)**	19.2	18.4	5.1	5.0	150.5	August
% change	46.6	4.5	41.7	25.0	12.1	
Retail trade (\$M)	4,413	4,625	1,165	1,246	34,179	July
% change	-0.8	-1.1	-1.9	-0.5	-0.5	
Wholesale trade (\$M)	4,204	4,805	1,238	1,127	41,722	July
% change	1.5	0.1	-4.6	4.6	2.8	
Manufacturing sales (\$M)	2,642	4,269	883	1,174	41,358	July
% change	-0.8	-4.0	-1.9	-4.7	5.5	

\* Compared to same month in the previous year \*\* Annual rate (monthly figures are multiplied by 12 to reflect annual levels)

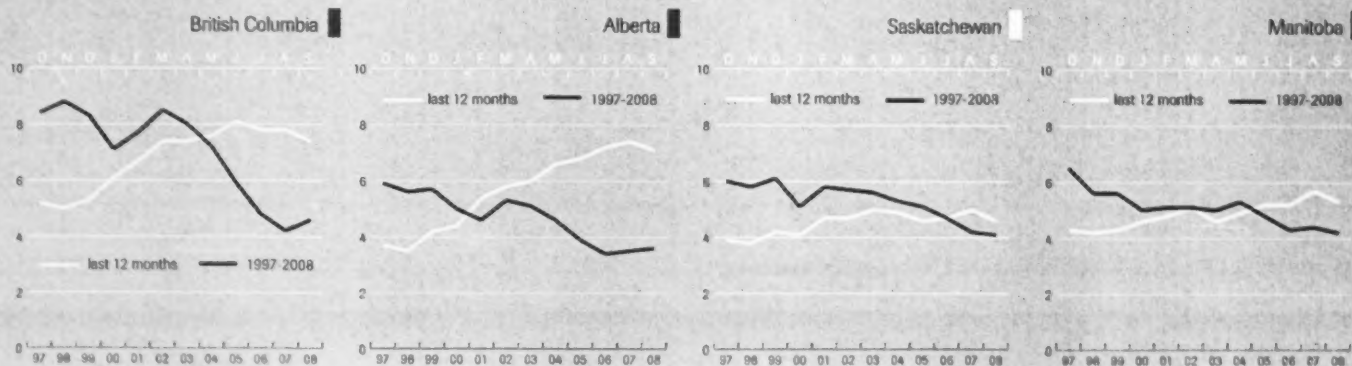
Unless otherwise noted, data are seasonally adjusted and percent change is from previous period. Source: Statistics Canada, Canada Mortgage and Housing Corp

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## Unemployment Rate (%)

Source: Statistics Canada



# INTO THE CLASSROOM: NATURAL GAS 101

## Did you know?

- ➡ Victoria was founded in 1843 as a Hudson Bay Company trading post, making it the oldest city in western Canada.
- ➡ There are 300 bison currently living and grazing on land reclaimed from oil sands mining and tailings operations.
- ➡ The University of Manitoba is western Canada's oldest university, having been founded in 1877.
- ➡ Lake Manitou near Watrous, Saskatchewan is said to be three times saltier than the Dead Sea, making it impossible for swimmers to sink.
- ➡ The total expenditures of Canadian universities and colleges reached \$37.0 billion in 2009, up 4% from the previous year.
- ➡ Among large Canadian cities, Winnipeg is the one with the highest proportion of Aboriginals at 10%.

The days are getting shorter and colder. It's already time for the annual ritual of flicking the furnace back on. For a majority of Canadians, that furnace burns natural gas. This is as good a time as any to learn more about the blue-flamed fuel (along with the peculiar vocabulary attached to it).

Natural gas is "natural" because it is already in a gaseous condition when found under the impermeable rock layers that prevent it from reaching the surface. It consists primarily of methane (CH<sub>4</sub> for the chemically-inclined). It was discovered as a by-product of crude oil, but nowadays explorers look for it on its own. Most of Canada's natural gas originates from the Western Canada Sedimentary Basin, the underground remains of a huge ancient sea which stretched from Manitoba to the Arctic Ocean, including most of Alberta. Once extracted, it has to be processed to remove the non-methane gas. The

result is the clean-burning fuel used by households, utilities and manufacturers. In the latter's case, gas is used both as a source of heat and as an input for the petro-chemical industry.

The first Canadian discovery of natural gas occurred in eastern Alberta in 1883, but it was not until 1958 that the Trans-Canada pipeline reached Ontario, connecting Alberta to the large markets of central and eastern North America. Pipeline networks can only spread so far within a continent, but once cooled down to -160C, liquefied natural gas (LNG) can be shipped overseas. This relatively expensive process is only viable for delivery to large countries with little gas of their own such as Japan, South Korea and Spain.

Recent innovations have given the natural gas industry the capacity to drill sideways, as well as to

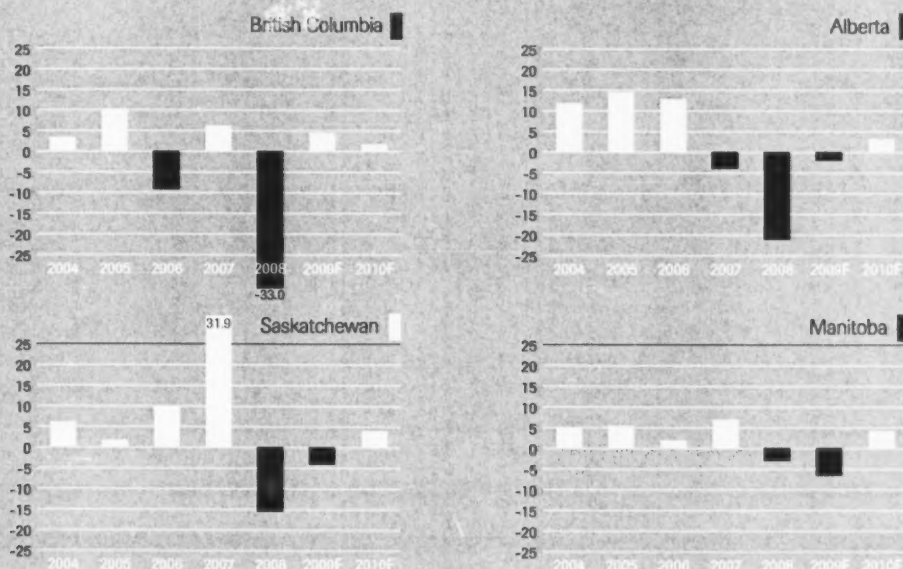
## BEHIND THE NUMBERS

One of the most tell-tale signs of the recession in Canada has been the drop in sales of existing homes. The number of sales declined all though the West in 2008, but forecasts for this year and next paint a less uniform picture.

Despite growth in both 2009 (+4.5%) and 2010 (+1.8%), BC will hardly offset the steep drop of 33% in 2008. In 2010, resales in BC will be 25% below their 2007 level. Resale patterns in Alberta and Saskatchewan will be similar to BC's but more moderate. Only Manitoba will end 2010 close to the level it reached in 2007.

### Residential Resales (% change)

Source: Canada Mortgage and Housing Corporation



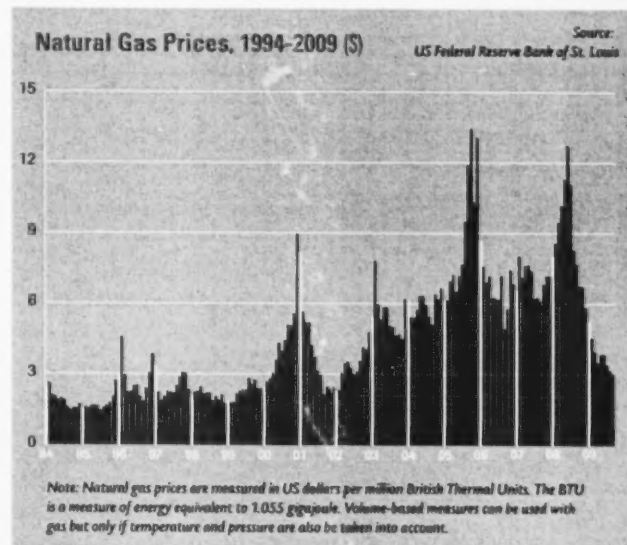


continuously crack (or "fracture") rocks to let gas flow. Natural gas can now be extracted at a lower cost from areas (or "plays") which in the past were known to contain vast amounts of gas but were difficult to reach. This "unconventional gas" is mainly found in shale (flaky, unstable rock) and coal beds (where it is attached to coal particles), but also in tight sands (sand containing particles so fine that it won't flow).

Before unconventional gas became affordable, Canada's gas industry was well-positioned because the US was running low and considered importing LNG from the Middle East. That was then. Today, large growth in shale gas production in the US Southeast has not only decreased demand for Canada's conventional gas, it also has created a surplus in gas that has brought prices down. From a peak of nearly \$14 per million BTU in July 2008, the price of gas now hovers around \$5. This is bad news for Canadian producers because the break-even gas price for them is closer to \$7 compared to \$4 in US unconventional plays. Today's high Canadian dollar doesn't help either (see figure note).

In Canada, low gas prices have had an impact on consumer price inflation, which has been in the negative range over the last few months, as well as on the industry's profitability. Nevertheless, the search for new sources of gas continues. Gas exploration is a big industry in the West, with a healthy competition among the provinces. While Alberta remains the main gas hub, BC and Saskatchewan have become major players over the last decade thanks to new discoveries. A BC group is even exploring the possibility of exporting LNG by setting up a terminal in Kitimat, near Prince Rupert.

The demand for gas is currently relatively low due to the economic slowdown, but in the long term it will trend back up because natural gas is considered quite clean as a source of energy, especially when compared to the coal used in many power generators. Demand will certainly go back up. But, this will not happen right away. At least, not as quickly as turning a furnace on.



## Industry Spotlight: Tourism in Alberta

Tourism is big business across Alberta. About 20 million person-visits are recorded per year, of which about 20% come from outside the province. (A person-visit represents a stay of one or more nights by a person in one location.) National parks are major attractions, with 3.3 million visiting Banff National Park and 2 million visiting Jasper National Park. While Lake Louise is Alberta's most famous destination, there is also a lot of interest in urban-related attractions such as the West Edmonton Mall and Calgary's Heritage Park. City-based festivals are large draws: 500,000 people attend Edmonton's International Fringe Festival, while the Calgary Stampede attracts 1.2 million enthusiasts. The industry is never short of ideas, as demonstrated by the popularity of the Vulcan Tourism and Trek Station and the Lacombe Corn Maze.

Government support for tourism comes from Travel Alberta on the provincial level, and the federal Canadian Tourism Commission, which received \$40 million in the 2009 budget's stimulus package to help market Canada's tourist destinations.



About 375,000 people each year visit one of the world's largest displays of dinosaurs inside Royal Tyrrell Museum in Drumheller, Alberta.



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## What Happens Once the Games Are Over?

by Jacques Marcil, Senior Economist

There is a lot more to British Columbia than just two-by-fours, but for some reason, everywhere you look, the problems of the BC forest industry are the focus of what analysts say about the province's economy.

Apparently, they're not aware that BC has performed better than the national average during the five years prior to the recession even as its forest industry was going through very difficult times.

Just like the rest of the country, economic activity in BC began a steady decline at the end of 2008. Twelve months later, BC's economic landscape is a combination of positives and negatives. The main positive factor is the number of large non-residential construction projects.

The negatives include lower exports (mainly to the US) and employment (only Ontario and Alberta are worse off since the beginning of the downturn). It is now clear that 2009 will mark the first significant decline for BC's economy since 1982. One meagre consolation is that many provinces will do worse this year.

Next year's Olympic and Paralympic Games are a big party, and just like with any other party, the end will come too soon and be followed by a letdown. Once the flame is extinguished, the inevitable after-party cleanup completed and the furniture put back where it belongs, many British Columbians will ask "now what?"

No one can blame the province's population for being a bit skeptical about their prospects for economic growth in 2010, but those prospects are good, and not just because of the temporary economic boost provided by the Games. The reason: an economy that has more going for it than forestry-focused headlines would suggest.

BC is known for the diversification of its population but less for that of its economy. Its trade infrastructure is resolutely turned towards Asia, where most of the current and upcoming growth is taking place. It is a hotbed for green and renewable

energy technologies, has a long list of infrastructure projects underway and benefits from the presence of many innovative firms. As to natural resources, coal and natural gas are now nearing forestry's status. BC is a forward-looking and unique province in many regards.

On top of this, BC benefits from its unique natural setting and the high quality of life associated with both its cities and its more rugged areas. This has allowed it to become a tourism hub both for international visitors and for Calgarians looking for a playground. The result: a solid consumer base, which has taken over for the lagging export sector recently.

As to what will remain after the Olympics, BC should look at its past for a better idea of what the future has in store. Two decades ago, Expo 86 was a success not only because it increased the province's profile, but also because it left behind a legacy of infrastructure and urban renewal which still plays a vital role in the Vancouver of today. The Winter Games don't last as long as a world fair, but the capital investment they require will remain in place long after they are over.

Another less tangible asset attached to the Games is their impact on the vision all British Columbians (and not only Lower Mainland ones) have of their province. Often when we have visitors in our homes we tend to notice all the details that are wrong (finger marks on the walls, pet hair on the floor) and we find it hard to believe that our guests only see the positive: tasteful pictures and comfortable furniture.

Maybe this is what will happen to BC next year: the province's residents will pay heed to outsiders' enthusiastic comments about the great potential BC has, and with a bit of luck, they will forget about the forest industry's difficulties and come out of this with the reinforced conviction that "the best place on Earth" is the best place for innovating, for reaching out to new markets and for enjoying a unique and spectacular natural environment. ■